IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

UNISOURCE WORLDWIDE, INC.,	:	CIVIL ACTION
Plaintiff	:	
v.	:	
DONALD J. HELLER, et al.,	:	
Defendants	:	NO. 99-266

M E M O R A N D U M

Padova, J. June , 1999

Plaintiff has filed a Motion to Dismiss the counterclaims of the four individual Defendants in this suit pursuant to Federal Rule of Civil Procedure 12(b)(6). For reasons that appear below, the Motion will be granted in part and denied in part.

I. INTRODUCTION

Plaintiff and Defendants are in the business of paper sales brokerage. Plaintiff filed its Complaint in this suit against Strategic Paper Group LLC ("Strategic") and four former senior officers of Plaintiff's Websource division, Donald J. Heller, Robert T. O'Hara, Alan Gralnick, and John G. Daly, Jr. The Complaint alleged that the four individual Defendants planned and created Strategic to compete with Plaintiff while they were still working for Plaintiff. It also alleged that the four individual Defendants induced approximately one-third of the Websource employees to join them at Strategic.[1]

[1]The Counts of the Complaint are Breach of Duty of Loyalty (Count I), Breach of Fiduciary Duty (Count III), Mass Exodus

The individual Defendants (hereinafter "Defendants") have counterclaimed for Defamation of Defendants' Good Reputation as Businesspersons (Count I), Commercial Disparagement (Count II), Lanham Act - Unfair Competition in Violation of § 43(a)(Count III), and Violation of New York General Business Law § 349 (Count IV). Strategic also counterclaimed, but it subsequently dismissed its counterclaim voluntarily.

Plaintiff moves to dismiss the individual Defendants' counterclaims, all of which are based on the same allegedly defamatory statements. Defendants allege that Plaintiff's false and misleading statements were contained in (1) a memorandum ("Memorandum") from Plaintiff's chairman and CEO, Ray Mundt, to all of Plaintiff's employees dated January 20, 1999, and (2) a press release, the contents of which were published on the Internet and in various hard copy publications including The Philadelphia Inquirer ("Inquirer"). Defendants also allege that Plaintiff made false and malicious statements about Strategic to suppliers. Defendants have attached to their counterclaims copies of the Memorandum, a clipping from the Inquirer dated January 28, 1999, and a release from Reuters that appeared on the Internet. Because Plaintiff has disputed that the publications

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Liability (Count IV) and Civil Conspiracy (Count VII) against all four individual Defendants; Breach of Duties of Competent Service and Loyalty against Heller (Count II); and Misappropriation of Trade Secrets and Confidential Information (Count V) and Inevitable Disclosure (Count VI) against all Defendants.

can properly be the subject of Defendants' counterclaims, the Court will quote extensively from them here.

The Memorandum from Ray Mundt to "All Unisource Employees" states in pertinent part:

> Last week, we advised you that several of our senior managers at Websource had resigned. I'm writing today to update you on that situation and to advise you of actions we have taken to protect the interests of Websource and Unisource on behalf of our employees and shareholders.
>
> During the past several weeks, we have uncovered information that has led us to believe that the former Websource managers may have acted improperly with respect to their duties and obligations to the company.
>
> All employees have a fiduciary duty and a legal obligation to devote their full time, energy and loyalties to running the business. This means that while employed they cannot solicit customers or suppliers, or use confidential information on behalf of a third party, or otherwise take steps to compete with the company.
>
> We respect the right of any employee to leave the company in furtherance of their own careers. However, when employees take steps, while employed by Unisource, to appropriate the company's business for themselves, the company is required to take all actions necessary to protect its interests. To that end, we have filed a lawsuit . . . against former employees who we believe have acted in direct violation of their legal duties to the company. Those named in the lawsuit are Donald Heller, Robert O'Hara, Alan Gralnick, and John Daly.
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> The suit also named Strategic Paper Group, a company incorporated in New York on December 7, 1998. Strategic Paper Group was formed to broker paper to the magazine, catalog, direct mail, documentation and book industries on a nationwide basis, which would put them in direct competition with Websource.
>
> We regret the need to take legal action; however, our responsibility to all of our employees and to our shareholders left us no other alternative.

(Defs.' Countercls. Ex. A.)

The article which appeared in the Inquirer on Thursday, January 28, 1999, states:

> **Unisource sues four ex-employees over new firm**
>
> Unisource Worldwide, the Berwyn paper and supplies distributor, said it has filed a lawsuit against four former employees of its Websource division in New York. The suit alleges that the four, all of whom recently resigned, tried to lure Unisource employees, customers and suppliers to a new company, Strategic Paper Group L.L.C., White Plains, N.Y. The suit also said the employees used Unisource's trade secrets and confidential information in establishing the new company, which markets paper to the publishing and direct-mail industries. Unisource said estimated lost business at Websource could reduce profits by $5 million to $8 million this year. The former Websource employees' lawyer, Mark S. Melodia . . . said: "The claim is meritless, and we are vigorously defending" those accused.

(Id. Ex. B.)

The Reuters release stated:

> **Unisource Sees FY99 income cut by $5-8 mln**
>
> BERWYN, Pa., Jan 26 (Reuters) - Unisource Worldwide Inc. . . . said Tuesday it is suing four former employees of its Websource division and expects 1999 results to be reduced by $5 million to $8 million from lost business at Websource.
>
> The marketer and distributor of printing and imaging papers and supply systems said it is suing the former Websource employees, all of whom recently resigned, accusing them with "enticing and attempting to entice Unisource employees, customers and suppliers to leave Unisource, while they were still employed by the company."
>
> Additionally, Unisource chairman and chief executive officer, Ray Mundt, said paper prices remain significantly below year-ago levels, and "our view is that the declines may well continue through our second quarter."
>
> "As a result, our earnings performance could be $0.03 to $0.04 below current consensus estimates," for the second quarter. Websource could have an additional

> $0.02 negative impact in the second quarter and, potentially, $0.04 to $0.06 for the year," Mundt added.
>
> "While the company is taking aggressive steps to protect this important business, Unisource management estimates that lost business at Websource could reduce operating income by $5 to $8 million for the fiscal year," the company said in a statement.
>
> While the names of the employees were not revealed, Unisource said three of them are principals at a new company that has been established as a direct competitor.
>
> Unisource also charged the former employees with "misusing and misappropriating Unisource's trade secrets and confidential information; failing to use their full energies and efforts to promote Unisource's business, and working to establish a newly-formed company as a competitor to Unisource."

(Id.)

II. LEGAL STANDARD

A claim may be dismissed under Fed. R. Civ. P. 12(b)(6) only if the plaintiff can prove no set of facts in support of the claim that would entitle him to relief. ALA, Inc. v. CCAIR, Inc., 29 F.3d 855, 859 (3d Cir. 1994). The reviewing court must consider only those facts alleged in the complaint and accept all of the allegations as true. Id.; see also Rocks v. Philadelphia, 868 F.2d 644, 645 (3d Cir. 1989) (holding that in deciding a motion to dismiss for failure to state a claim, the court must "accept as true all allegations in the complaint and all reasonable inferences that can be drawn therefrom, and view them in the light most favorable to the nonmoving party"). However, the Court need not accept "bald assertions or legal conclusions."

Morse v. Lower Merion School District, 132 F.3d 902, 906 (3d Cir. 1997).

III. DISCUSSION

A. Defamation

A statement is defamatory "if it tends to so harm the reputation of another as to lower him in the estimation of the community or to deter third persons from associating or dealing with him." Redco Corp. v. CBS, 758 F.2d 970, 971 (3d Cir. 1985) (quoting Corabi v. Curtis Publ. Co., 273 A.2d 899, 904 (Pa. 1971)). It is the Court's function to decide if a communication is capable of a defamatory meaning. Id. Plaintiff contends that none of its statements is capable of defamatory meaning. As this Court stated in Centennial School District v. Independence Blue Cross, 885 F. Supp. 683 (E.D. Pa. 1994), {"[u]nder Pennsylvania law, 'counts alleging defamation should not be dismissed unless . . . it is clear that the communication is incapable of defamatory meaning.'" Id. at 686 (quoting Petula v. Mellody, 588 A.2d 103, 108 (Pa. Commw. Ct. 1991).

Plaintiff moves to dismiss the claim of defamation on the grounds that all of the statements to which Defendants have objected are opinions, fair reports of this lawsuit, or true. As to Plaintiff's claim that its statements are true, that is not relevant to a Motion to Dismiss. For purposes of this Motion, the Court is obliged to accept Defendants' version of the facts

on which it bases its counterclaims, just as it would be obliged to accept Plaintiff's version of the facts on which it bases its claims if Defendants had filed a Motion to Dismiss.

Insofar as Plaintiff's statements are fair reports of the lawsuit it filed, they are not actionable because they are protected by a qualified privilege:

> [A]ttorneys and parties to a judicial proceeding enjoy an absolute privilege against defamation suits for any statements made during the course of those proceedings. Binder v. Triangle Publications, Inc., 442 Pa. 319, 323, 275 A.2d 53, 56 (1971). When a party makes these same statements outside of the courtroom by issuing a press release or holding a news conference, it may not claim this privilege.
>
> However, individuals may invoke a qualified, or conditional, privilege when they make out-of-court statements if those statements are a fair and accurate report of statements made or pleadings filed in a judicial proceeding, provided that the . . . individual[] does not abuse the privilege or make his report with the sole purpose of causing harm to the person defamed.

Doe v. Kohn Nast & Graf, P.C., 866 F. Supp. 190, 194 (E.D. Pa. 1994).

Opinion statements are sometimes actionable and sometimes not. Plaintiff states, in a footnote, that "[w]hile an opinion may be actionable if it is stated in such a way that it implies that it is based on undisclosed facts, the opinions set forth in Unisource's January 20, 1999 memo are not stated in such a manner." (Pl.'s Mem in Supp. at 7 n.1. (citations omitted).) See Levin v. McPhee, 119 F.3d 189, 196 (3d Cir. 1997) ("Though some statements may be characterized as hypothesis or conjecture, they may yet be actionable if they imply that the speaker's

opinion is based on the speaker's knowledge of facts that are not disclosed to the reader."); see also Redco, 758 F.2d at 972.

Plaintiff's Memorandum contains the following two statements: (1) "[W]e have uncovered information that has led us to believe that the former Websource managers may have acted improperly with respect to their duties and obligations to the company;" and (2) "[W]e have filed a lawsuit . . . against former employees who we believe have acted in direct violation of their legal duties to the company." The Court cannot say that these two statements appearing in the same publication may not form a basis for an action for defamation under Levin. The reader may understand Plaintiff's belief that Defendants have acted unlawfully, which is contained in the second statement quoted above, to be based on the undisclosed facts to which Plaintiff refers in the first statement quoted above. Defendants' counterclaim for defamation will therefore go forward.

B. Disparagement

Plaintiff argues that a claim for disparagement can be made only if the quality of a claimant's goods has been impugned, that if it is only the claimant himself who has been impugned, the action will lie in defamation. (Pl.'s Mem. at 10 (citing U.S. Healthcare, Inc. v. Blue Cross of Greater Philadelphia, 898 F.2d 914, 927 (3d Cir. 1990).) Defendants correctly point out that disparagement may also encompass the quality of a claimant's

services as well as his that of his goods. See KBT Corp., Inc. v. Ceridian Corp. et al., 966 F. Supp. 369, 373-74 (E.D. Pa. 1997). Defendants argue that, "[i]n this case, not only were the Individual Defendants personally defamed but, given the context and substance of the defamation, the marketability of their services was reduced, giving rise to valid disparagement claims." (Defs.' Resp. at 12.) Defendants cite no authority and fail to explain how the "context and substance of the defamation" gives rise to a disparagement claim. The Court need not accept Defendants' "bald assertion[] or legal conclusion[]" that they have stated a valid disparagement claim. The Court does not find disparagement of the quality of Defendants' services in Plaintiff's publications; rather, it appears that Defendants are trying to piggy-back a claim for disparagement on what is, in reality, a claim for defamation. Defendants' claim for disparagement will therefore be dismissed.

C. Lanham Act § 43(a)

Section 43(a) of the Lanham Act, 15 U.S.C.A. § 1125(a) provides:

> (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which --
>
> > (A) is likely to cause confusion or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship,

> or approval of his or her goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities or geographic origin of his or her or another person's goods, services, or commercial activities,
>
> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C.A. § 1125 (a) (West 1998).

Plaintiff argues that consumer confusion is the touchstone of a claim under section 43(a) of the Lanham Act, Fisons Horticulture, Inc. v. Vigoro Industries, Inc., 30 F.3d 466, 472-73 (3d Cir. 1994), and that there is no allegation of consumer confusion here. (Pl.'s Mem. at 13.) Defendants counter that, while consumer confusion may be central to claims under section 43(a)(1)(A), their claim is under section 43(a)(1)(B), in which misrepresentation is key. Defendants, as well as Plaintiff, cite Fisons, but for a different proposition. Defendants cite it for the statement that, under section 43(a)(1)(B), a claimant need not show that the challenged "advertising" was misleading if he can show that it was literally false. Fisons, 30 F.3d at 472 n.8 ("In an action brought under . . . section 43(a) of the Lanham Act for false advertising, 15 U.S.C. § 1125(a)(1)(B), plaintiff need not prove the challenged advertising misled the public if he can show it was literally false.")

Plaintiff's second argument is that the individual Defendants do not have standing to bring a claim under the Lanham

Act because, at most, Plaintiff made statements relating to Strategic's services and not those of the individual Defendants. Defendants state in their Amended Counterclaims that "upon information and belief, Unisource agents have also falsely and maliciously stated to suppliers that Strategic has only been able to secure certain contracts through the use of stolen trade secrets." (Am. Countercls. ¶ 10.) In support of its argument that Defendants lack standing, Plaintiff cites two cases stating that consumers cannot assert such claims, Serbin v. Ziebart Int'l Corp., 11 F.3d 1161 (3d Cir. 1993) and Berni v. Int'l Gourmet Restaurants of America, Inc., 838 F.2d 642 (2d Cir. 1988).[2] However, Defendants are not asserting their counterclaims as consumers. They are the principals in Strategic, individuals through whom Strategic conducts its business, and they claim that their own reputations are on the line, as well as Strategic's.

While the United Court of Appeals for the Third Circuit ("Third Circuit") in Serbin rejected standing for the consumer plaintiffs, it noted that, in Thorn v. Reliance Van Co., Inc., 736 F.2d 929 (3d Cir. 1984), it had held that an investor of a company that went bankrupt allegedly because of financial

[2]In another case Plaintiff cites, Cercere v. R.J. Reynolds Tobacco Co., No. 98 Civ.2011(RPP), 1998 WL 665334 (S.D.N.Y. Sept. 28, 1998), the plaintiffs were owners of a building which the defendant tobacco company had featured in its advertising with a superimposed figure of "Joe Camel" on it. The plaintiffs' lack of standing was due to their failure to allege a sufficient likelihood of commercial injury. That is not the case here, where the Defendants claim losses as businesspersons in the same market as Plaintiff.

difficulties caused unlawfully by a competitor had standing to sue the competitor under the Lanham Act. The Thorn court had reasoned that the investor had a "reasonable interest" to be protected under the Act against false advertising. Serbin, 11 F.3d at 1174 (citing Thorn, 736 F.2d at 933). More recently, in Conte Bros. Automotive, Inc. v. Quaker State-Slick 50, Inc., 165 F.3d 221 (3d Cir. 1998), the Third Circuit fleshed out what it meant by a "reasonable interest" in this context. Id. at 233-35. Adopting the test for antitrust standing under the Clayton Act set forth by the Supreme Court in Associated Gen. Contractors of California, Inc. v. California State Council of Carpenters, 459 U.S. 519, 103 S. Ct. 897 (1983), the Third Circuit considered the following factors in determining whether the plaintiffs had a "reasonable interest" that conferred on them standing to sue under the Lanham Act: (1) the nature of the plaintiff's alleged injury; (2) the directness or indirectness of the asserted injury; (3) the proximity or remoteness of the plaintiffs to the alleged injurious conduct; (4) the speculativeness of the damages claim; and (5) the risk of duplicative damages or complexity in apportioning damages. Conte Bros. at 233 (citing Assoc. Gen'l Contractors, 459 U.S. at 538-44, 103 S. Ct. at 909-912. In Conte Bros., the plaintiffs claims did not pass muster. In this case, the alleged injury to the individual Defendants, whose reputations are allegedly at stake, is almost the same as the alleged injury to Strategic with respect to the five factors enumerated in Conte Bros. The individual Defendants' "reasonable

interest" is as least as great as, if not greater than, the interest of the investor in Thorn. The Court concludes that the individual Defendants do have standing to sue under the Lanham Act.

Plaintiff's third argument against Defendants' counterclaim under the Lanham Act is that none of the statements attributed to it were made, "in commercial advertising or promotion." (Pl.'s Mem. at 14.) As this Court has stated elsewhere, "Notwithstanding that § 1125(a) applies to a broad range of misrepresentations, 'it does not have boundless application . . . but is limited to false advertising as that term is generally understood.'" Guardian Life Ins. Co. of America v. American Guardian Life Assurance Co., No. 95-3997, 1995 WL 723186 at *3, E.D. Pa. Nov. 14, 1995 (quoting Gordon & Breach Science Publishers v. AIP, 859 F. Supp. 1521, 1532 (S.D.N.Y. 1994)). See also Ditri v. Coldwell Banker, 954 F.2d 869, 872 (3d Cir. 1992) (noting that the Lanham Act creates a remedy only for false descriptions or misrepresentations of products in advertising). This Court has adopted the following definition of commercial advertising and promotion under § 1125(a): (1) commercial speech; (2) by a defendant who is in commercial competition with plaintiff; (3) for the purpose of influencing consumers to buy defendant's goods or services; (5) that is disseminated sufficiently to the relevant purchasing public to constitute "advertising" or "promotion" within that industry. Guardian Life, 1995 WL 723186 at *3.

The publications Defendants attach to their counterclaims do not, in themselves, appear to be commercial speech made to the relevant purchasing public for the purpose of influencing consumers to buy Unisource's services, rather than those of Strategic. Unisource's Memorandum was addressed to its employees, and there is no indication that its purpose was to influence the employees to become or remain customers of Unisource; if anything, its purpose was to influence them to remain employees of Unisource. The Reuters publication reported on the law suit and focused on explaining an expected drop in the company's market value, and the Inquirer article was a report of the law suit, including specific allegations. Neither made any remarks about the quality of goods, services, or commercial activities of Defendants. The commercial activity in which Defendants are engaged is paper sales brokerage, and nothing in the publications attached to the Amended Counterclaims reflects on Defendants' activities in that respect.

Defendants allege that "Unisource agents have continued to spread in writing and in conversation the false and defamatory statements contained in the Press Release and Memorandum," although it is now clear to whom. (Id. ¶ 9.) In addition to those publications, Plaintiff allegedly made comments to suppliers that "Unisource agents have . . . falsely and maliciously stated to suppliers that Strategic has only been able to secure certain contracts through the use of stolen trade secrets." (Defs.' Countercls. ¶ 10.) On the basis of that

statement, the Court therefore cannot rule out that some of Plaintiff's publications and comments were commercial speech made to the relevant purchasing public, nor can it confidently say that they were not "advertising" or "promotion" of Plaintiff's services over those of Defendants. Defendants' counterclaims under the Lanham Act will therefore go forward.[3]

D. New York General Business Law § 349

Under its last counterclaim, Defendants allege only that "Plaintiff's misleading and deceptive competitive practices, as described above, constitute a violation of New York General Business Law § 349." (Defs.' Countercls. ¶ 31.) The Complaint alleges that Strategic was formed as a New York Limited Liability Corporation (Compl. ¶ 28.), and Defendants refer to New York law in their Affirmative Defenses (Defs.' Ans. "Twenty-Fifth Affirm. Defense") as well as in this counterclaim; however, neither side has provided a basis for this Court, sitting in diversity in Pennsylvania, to apply New York law to this case. Defendants' counterclaim under New York's General Business Law § 349 will therefore be dismissed.

[3]Plaintiff states that, even if Defendants assert a Lanham Act claim, they cannot demonstrate that any of Plaintiff's statements are false. While that may be relevant to a later stage of the litigation, it is not relevant to Plaintiff's Motion to Dismiss.

IV. CONCLUSION

For reasons that appear in the foregoing, Defendants' Counts Nos. II and IV will be dismissed and Counts Nos. I and III will go forward. An appropriate Order follows.

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Plaintiff	:	
v.	:	
DONALD J. HELLER, et al.,	:	
Defendants	:	NO. 99-266

O R D E R

AND NOW, this day of June, 1999, upon consideration of Plaintiff's Motion to Dismiss the Amended Counterclaims (Doc. No. 25) of the individual Defendants pursuant to Federal Rule of Civil Procedure 12(b)(6) for failure to state a claim, Defendants' Response (Doc. No. 28), and the submissions thereto, it is **HEREBY ORDERED** that Plaintiff's Motion is **GRANTED IN PART AND DENIED IN PART** and Defendants' Counts Nos. II and IV are dismissed from the case.

BY THE COURT:

JOHN R. PADOVA, J.